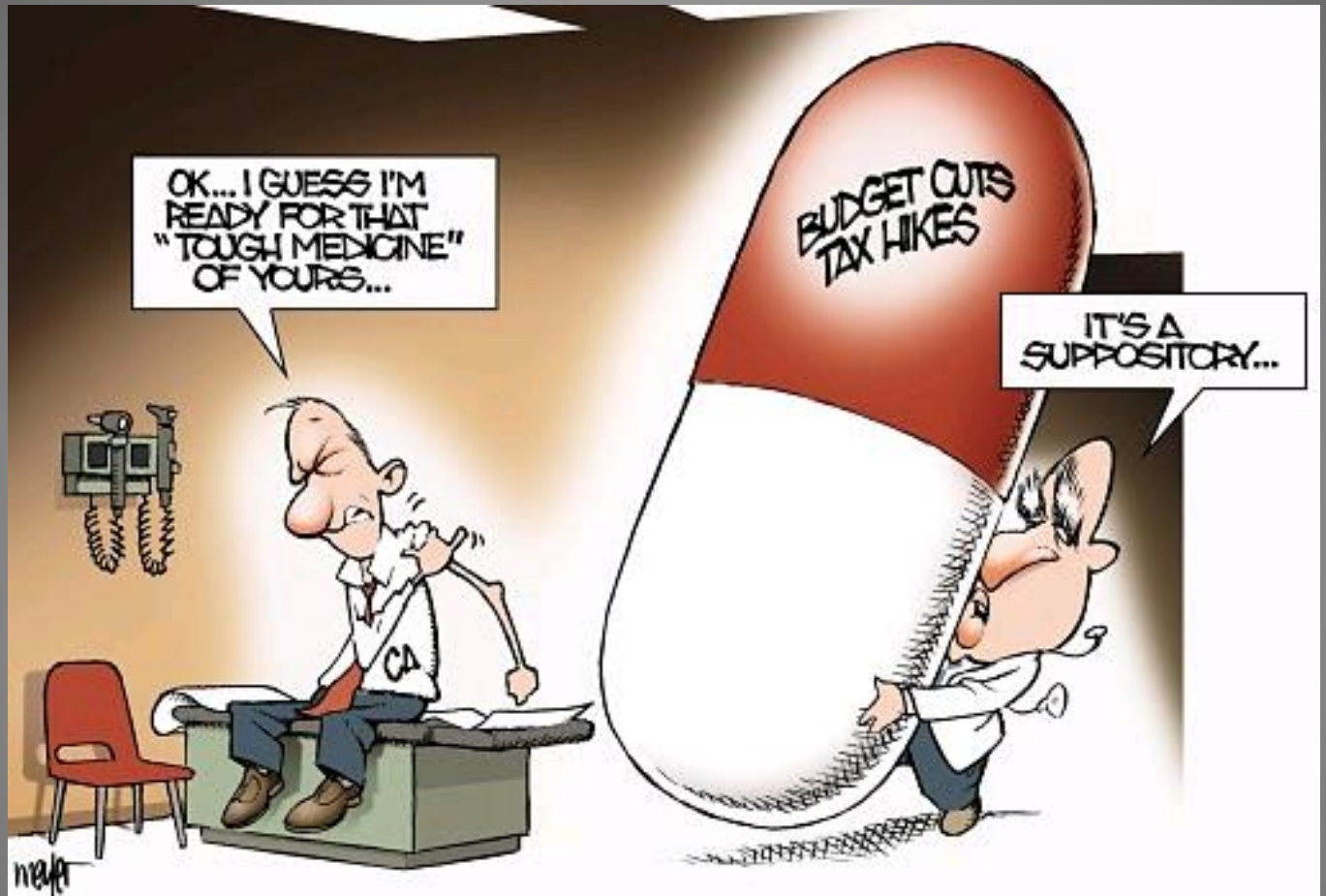


Governance, Budgets, & Public Workers



Daniel J.B. Mitchell
Professor-Emeritus, UCLA
Public Sector Forum
April 21, 2011

Governance

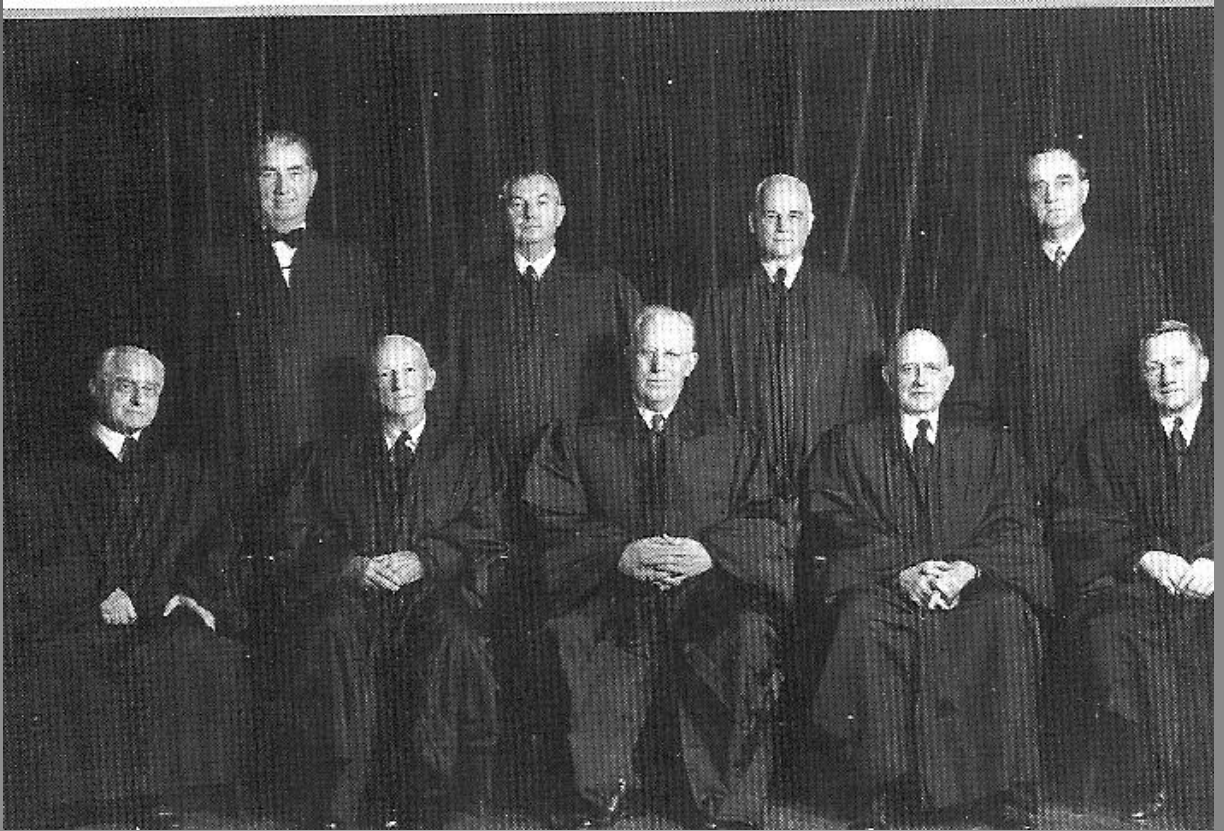


***What do you see in this
picture of downtown LA
from 1946?***





California Governor



The U.S. Supreme Court in 1953

Collier-Burns Act (1947)

- **Proposal: Put gas and other motor-vehicle related taxes into trust fund to avoid tax “diversion”**
- **Raise gas and related taxes to build freeways and other roads**





Universal Health Care

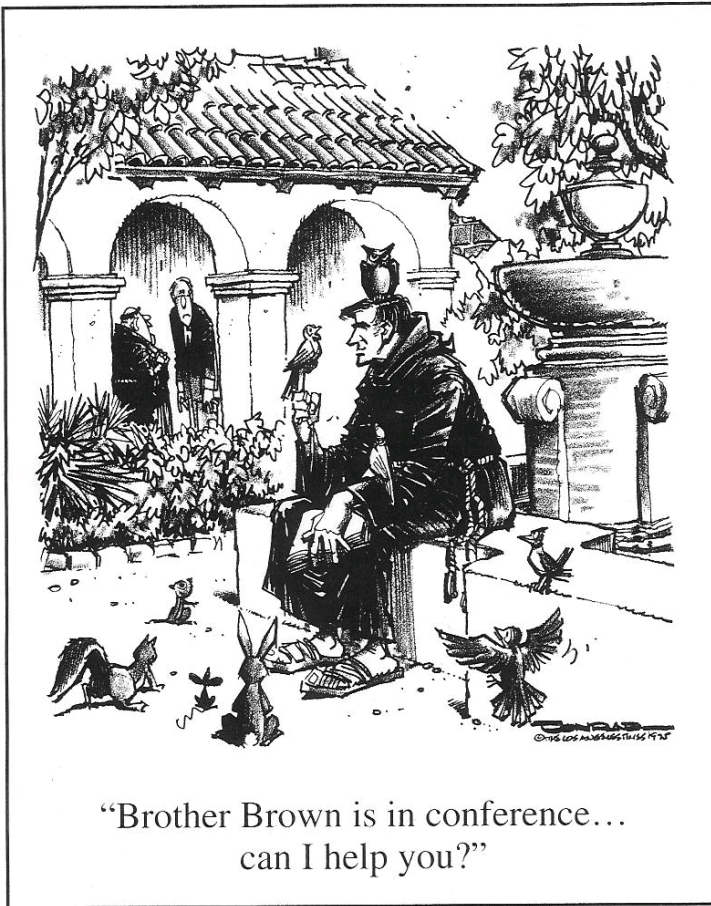
- State health insurance Plan
- Employer pay or pay
- Opposed by California Medical Assn. (doctors)
- Failed to pass



Moral

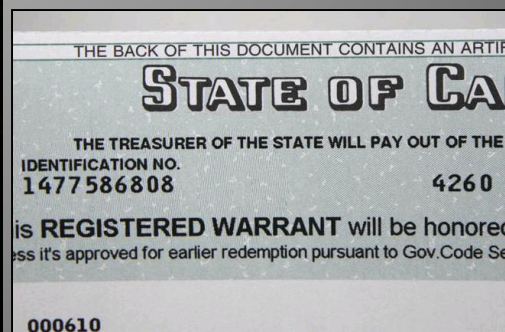
- Popular governor
- Landslide re-election
- More centrists in legislature than today
- Fewer institutional barriers than today
- Win one out of two







Budget Problems



Choose your metaphor

The Usual Suspects



The Usual Suspects



2/3 vote for budget (*now abolished*)

2/3 vote for taxes

Proposition 13

Voter-mandated spending formulas, programs, bond issues

Voter-imposed term limits

Volatile revenue stream

Gerrymandered districts (*now being addressed by new commission*)

Party polarization (*potentially now ameliorated by nonpartisan primary*)

Direct Democracy

Direct Democracy

**When you are at the
peak, you can't fall up**



**When you are at the peak, you
can't fall up *except at Anderson***

THE UCLA ANDERSON FULLY EMPLOYED MBA

UCLAAnderson
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AN EXCEPTIONAL PROGRAM FOR
REMARKABLE PEOPLE



L.A. UNLEASHED

ALL THINGS ANIMAL IN SOUTHERN CALIFORNIA AND BEYOND

Stone-throwing Santino the chimp shows apes can carry out plans

7:35 PM, March 9, 2009



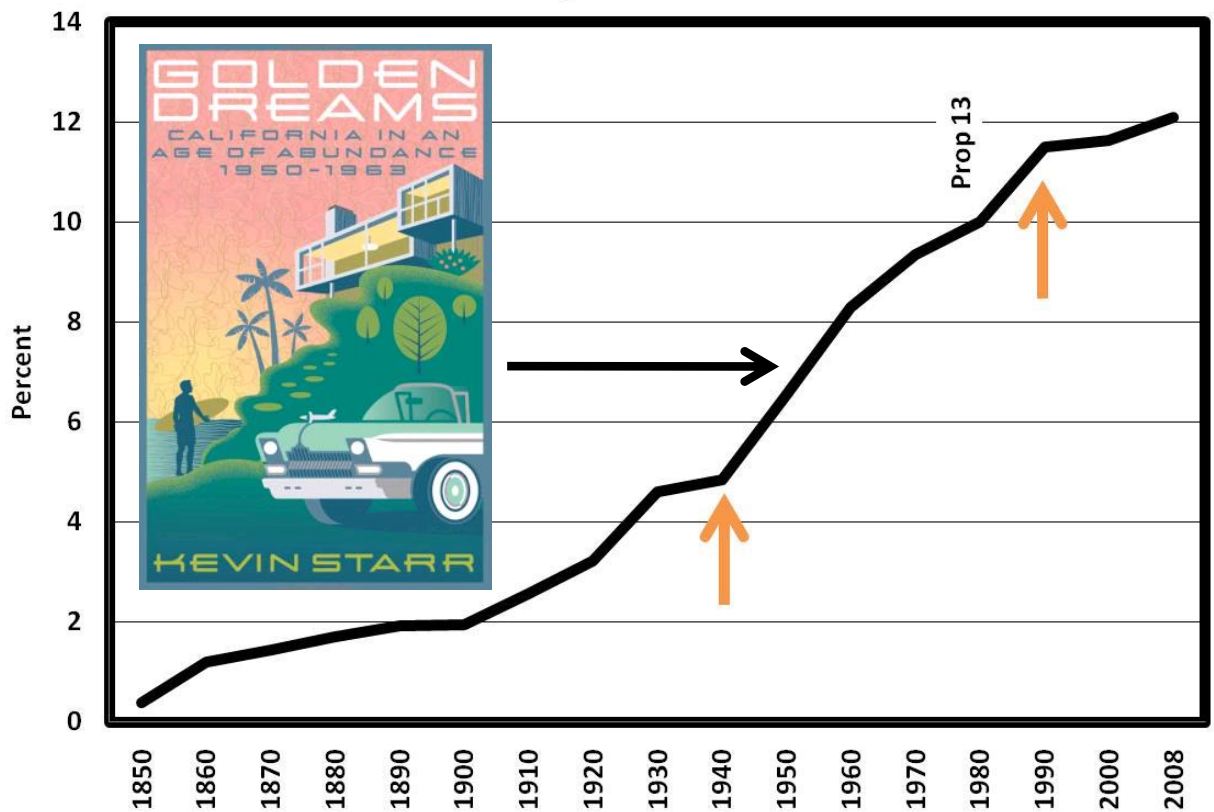
A chimpanzee named Santino has shown researchers that the great apes can plan ahead and execute carefully plotted maneuvers. Santino, the alpha male chimp at Sweden's Furuvik Zoo, planned rock-throwing attacks against zoo visitors, which shocked zoo staff and fascinated scientists.

When was California's original sin?

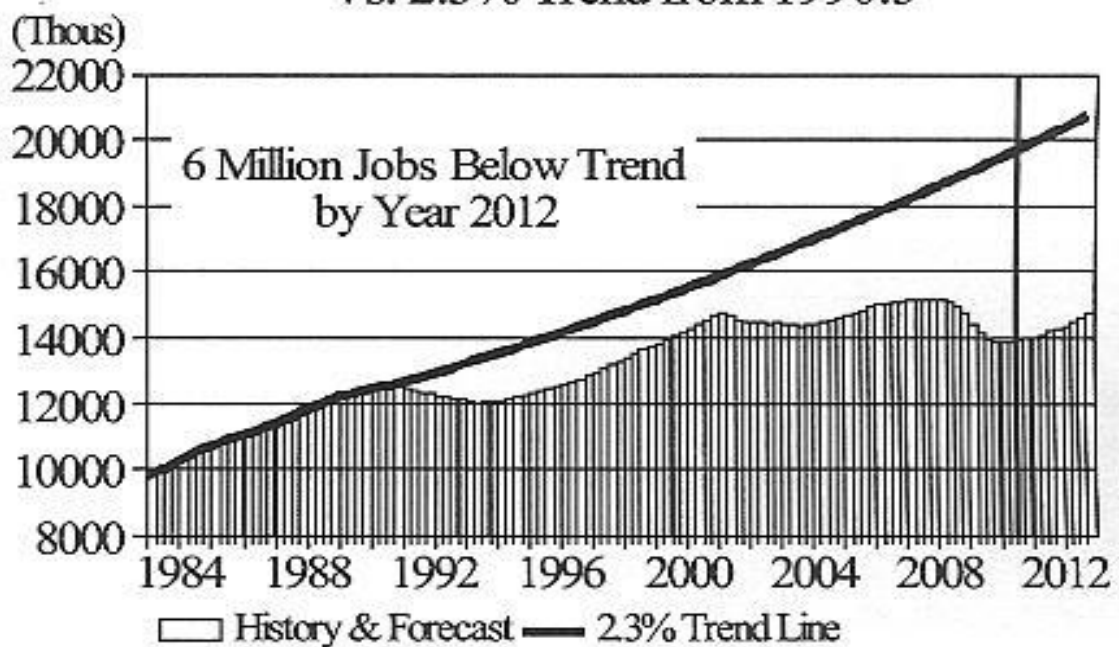


- **1910 & Direct Democracy?**
- **1978 & Prop 13?**

California Population Relative to US



California Nonfarm Employment History & Forecast Vs. 2.3% Trend from 1990:3



More Suspects (which we can fix)



Surpluses and deficits don't have fixed common-English meanings

Stocks and flows are mixed

Budget concepts expressed without clear time period

Borrowing treated as revenue

Assets sales treated as revenue

Use of undefined terms by officials such as shortfalls, gaps, and holes



Short Fall?

Long Fall?





Short Fall?

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Paul Sakuma, Associated Press

California budget faces new \$8-billion shortfall

Plunging revenue has already put the new budget plan out of balance, the state legislative analyst says. The news may complicate the bid to have voters OK special-election measures in May.

By Jordan Rau and Evan Halper
March 14, 2009

Reporting from Sacramento -- The plan that Gov. Arnold Schwarzenegger and

GAP





CapitolAlert

THE LATEST ON CALIFORNIA POLITICS AND GOVERNMENT

March 13, 2009

Leaders react to latest budget gap

The legislative leaders who labored for weeks trying to find a way to patch the \$40 billion budget gap closed last month were quick to react today to LAO projections of a new \$8 billion hole.

Senate leader Darrell Steinberg even extended a special invitation to GOP gubernatorial hopefuls Steve Poizner and [Meg Whitman](#), who have been critical of the February budget deal.

Assembly Speaker Karen Bass, D-Los Angeles

"Given the nation's continuing economic problems since we passed the budget, it is not surprising to see the state's revenue projections continue to fall. We must keep a careful watch on revenues during these volatile times, and all of us, Democrats and Republicans alike, must be prepared to continue to make tough decisions should the May Budget Revision also show significant declines in revenue. We also have to keep in our minds the potential that if the [ballot measures](#) fail on May 19th, the budget problem grows by another \$6 billion."

Assembly Republican Leader Mike Villines, R-Clovis



Holes





Holes

The Sacramento Bee CapitolAlert



PM Alert: Another \$8 billion hole

In case you missed it today: The Legislature's budget analyst, **Mac Taylor**, declared today that the **immense package of spending cuts, new taxes and loans** aimed at closing the state's \$40 billion budget deficit will **fall short by \$8 billion** because the state's economy is continuing to falter.

The **legislative leaders who labored for weeks** trying to find a way to patch the \$40 billion budget gap were quick to react today to LAO projections of a new \$8 billion hole.

When it comes to **protecting children's interests**, **nobody scores 100 percent** in the California Legislature, according to the San Diego-based Children's Advocacy Institute.





Listen carefully



State Senate President Darrell Steinberg



ASSOCIATION FOR BUDGETING
& FINANCIAL MANAGEMENT



Listen carefully



State Senate President Darrell Steinberg



ASSOCIATION FOR BUDGETING
& FINANCIAL MANAGEMENT



Question



**\$100 billion
is an annual
flow. Is it really
likely that there
could have been
a \$60 billion
deficit in the
common
meaning of that
term?**



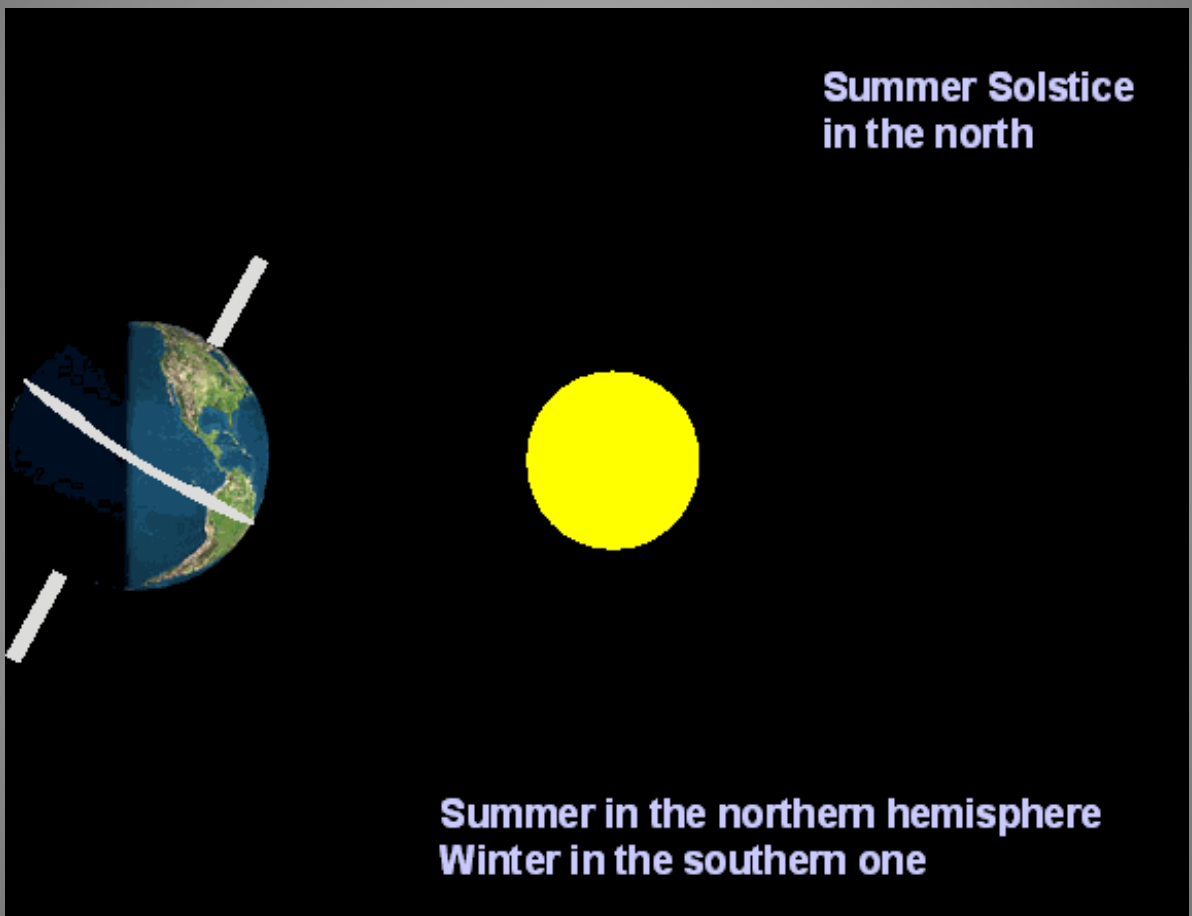
ASSOCIATION FOR BUDGETING
& FINANCIAL MANAGEMENT



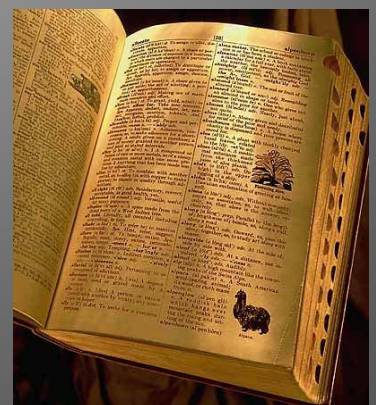
It's not just Steinberg



**“Deficit” should mean
income less than
expenditure...**



...during one year



Example: Current Year (2010-11)

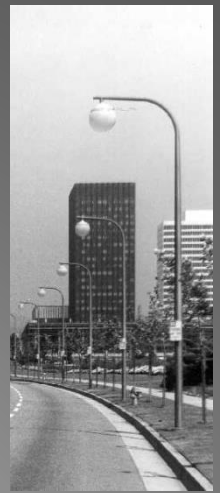
	No Changes	Brown Changes
• <i>Reserve</i> at the beginning of the year	-\$5.3 B	-\$5.3 B
• <u>Inflow</u> during the year	+\$90.7 B	+\$94.2 B
• <u>Outflow</u> during the year	-\$92.8 B	-\$92.2 B
• Surplus or deficit (in-out)	-\$2.1 B	+\$2.0 B
• Reserve at the end of the year	-\$7.4 B	-\$3.4 B*

*Details do not add total due to rounding.

Example: Next Year (2011-12)

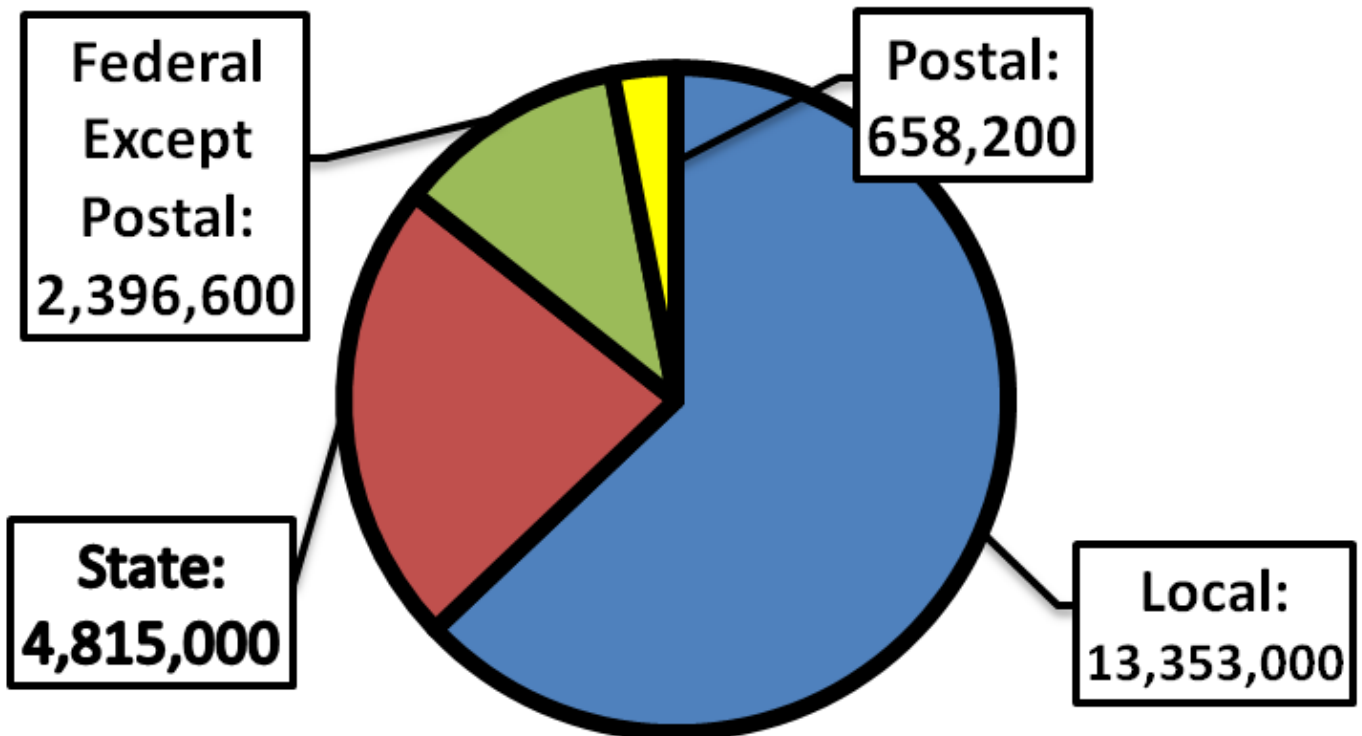
	No Changes	Brown Changes
• <i>Reserve</i> at the beginning of the year	-\$7.4 B	-\$3.4 B
• <u>Inflow</u> during the year	+\$83.5 B	+\$89.7 B
• <u>Outflow</u> during the year	-\$100.7 B	-\$84.6 B
• Surplus or deficit (in-out)	-\$17.2 B	+\$5.1 B
• Reserve at the end of the year	-\$24.7 B*	+\$1.7 B

*Details do not add total due to rounding.



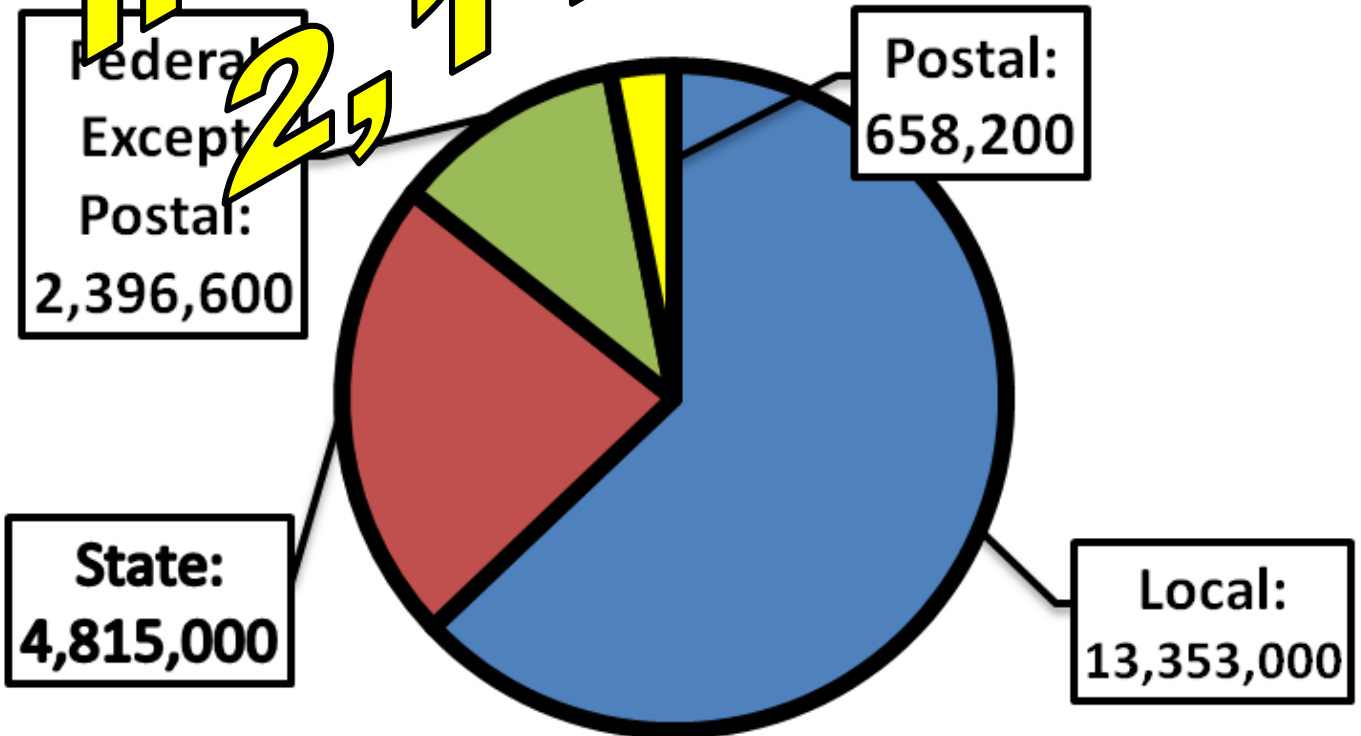
Public Employees

Payroll Employment of Govt.:
U.S., July 2010, nsa





State & Local in California: 2,113,200



**YOUR
ENGINE COMPANY
IS CLOSED.**

***YOU AND YOUR FAMILY
ARE IN DANGER!***

Call the Mayors office and your
city councilor and DEMAND they
return it back to service.

(213) 978-0600

CITY HALL & MAYOR VILLARAIGOSA
ARE GAMBLING WITH YOUR LIVES!

**State & Local
in LA County:**

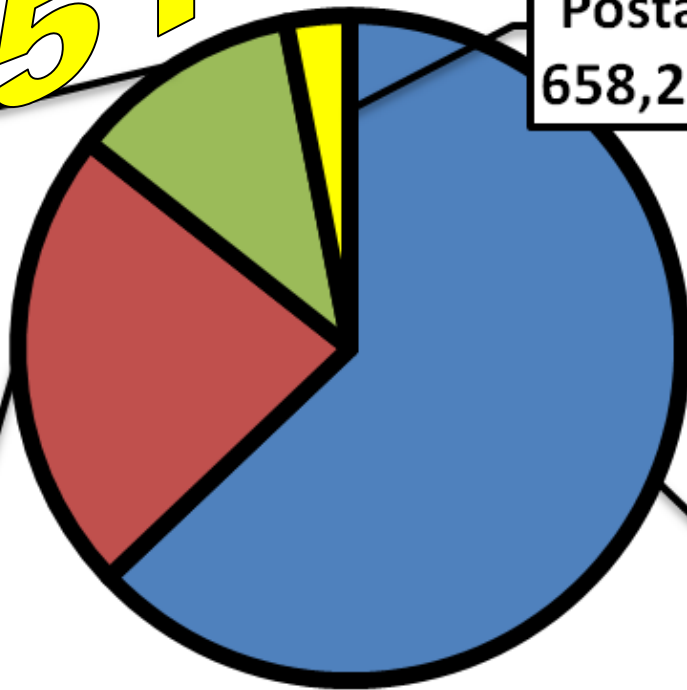
516,900

Federal
Except
Postal:
2,396,600

Postal:
658,200

State:
4,815,000

Local:
13,353,000



Union Representation Rate, 2010 (%)

US		California	
Total	13.1	Total	18.6
Private	7.7	Private	10.1
Public	40.0	Public	59.6

Major Unions' Share of Public Workers, 2008

SEIU (42.9%)

CTA-NEA except UTLA (8.2%)

AFSCME (5.9%)

UTLA-joint CTA/CFT (4.6%)

CFT-AFT except UTLA (4.1%)

CCPOA (4.0%)

What should be the headline for this March Field Poll?

California registered voter views about the pension benefits received by most state and local government workers

	Too generous	About right	Not generous enough	No opinion
<u>Total registered voters</u>				
March 2011	42%	34	14	10
October 2009	32%	40	16	12
<u>Party registration</u> (<i>March 2011</i>)				
Democrats	32%	39	18	11
Republicans	59%	26	6	9
Non-partisans/others	40%	36	15	9
<u>Union affiliation</u> (<i>March 2011</i>)				
Union member in household	30%	45	20	5
Non-union household	47%	31	12	10

What should be the headline for this March Field Poll?

THE FIELD POLL

Field Research Corporation

601 California Street, Suite 900,
San Francisco, CA 94108-2814
415.392.5763 • FAX: 415.434.2541
field.com/fieldpollonline

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UCB Contact

Dr. Jack Citrin: 510-642-4692 (office)

Release #2369

**MORE CALIFORNIA VOTERS NOW VIEW
PUBLIC PENSION BENEFITS AS TOO
GENEROUS. NARROWLY OPPOSE TAKING
AWAY COLLECTIVE BARGAINING
RIGHTS OF PUBLIC SECTOR EMPLOYEES.
MAJORITY SUPPORT FOR A NUMBER OF
PENSION REFORM PROPOSALS.**

Release Date: **Thursday, March**

IMPORTANT: Contract for this s
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subscriber staff prior to release ti
0195-4520)

The Santa Monica, CA Police Dept. has an unfunded liability of...



...over \$26,800 per
resident!!!

75 years, constant dollars (\$70
million), 2.5% real interest rate

Some Observations on Pension Funding

- **Full pension funding is a benefit to the employee**
- **Good pension practice**
 - Prevent spiking
 - Multiyear base period
 - Exclude bonuses, overtime, etc.
- **Pay in “normal cost” annually**
- **Use realistic earnings rate (which is more than the Treasury rate)**
- **Set age of retirement at realistic and supportable level**

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